

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 EB-07 COME-00 EUR-12 SS-15 SP-02 PRS-01

L-03 CIAE-00 INR-07 NSAE-00 H-02 NSC-05 PA-01 USIA-06

/072 W

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R 192035Z AUG 76

FM AMEMBASSY QUITO

TO SECSTATE WASHDC 1232

INFO AMCONSUL GUAYAQUIL

C O N F I D E N T I A L SECTION 1 OF 2 QUITO 5904

E.O. 11652: GDS

TAGS: BEXP EC

SUBJ: U.S. AMBASSADOR'S LETTER ON BEHALF OF U.S. FIRM DRAWS FIRE

1. SUMMARY: A LETTER FROM THE AMBASSADOR TO ECUADOREAN STATE PETROLEUM COROPRATION (CEPE), ASKING FOR INFORMATION ON THE CANCELLATION OF A TENDER FOR A MAJOR PROJECT IN WHICH A U.S. FIRM HAD SUBMITTED THE LOW BID, HAS BEEN CRITICIZED BY THE DIRECTOR OF CEPE, WHO HAS CHARACTERIZED THE SENDING OF THE LETTER "IMPROPER" (IMPROCEDENTE). THIS CRITICISM HAS DRAWN A PREDICTABLE DENUNCIATION OF THE LETTER IN A COMMUNIST PERIDOICAL (REPEATED AND AMPLIFIED BY THE THE SOVIET NEWS AGENCY TASS). IN ADDTION, ON AUGUST 18 A COLUMNIST IN THE LEADING ECUADOREAN DAILY "EL UNIVERSO" CRITICIZED THE LETTER IN AN ARTICLE ON THE EDITORIAL PAGE.

2. THE AMBASSADOR'S LETTER WAS PROMPTED BY SEVERAL STRONG INDICATIONS THAT CEPE'S DECISION TO CANCEL THE TENDER WAS TAKEN IN ORDER TO PAVE THE WAY FOR CEPE TO AWARD THIS MAJOR CONTRACT TO A FRENCH FIRM. THE LETTER WAS WORDED POLITELY, AND COULD NOT FAIRLY BE CHARACTERIZED---AS THE CEPE DIRECTOR AND OTHER CRITICS HAVE CHARACTERIZED IT--AS A "DEMAND" FOR AN EXPLANATION OF THE CANCELLATION OF THE TENDER. NEVER-THELESS, THE SENDING OF THE LETTER HAS BECOME EMBROILED IN INTERNAL ECUADOREAN POLITICS. THE AMBASSADOR DISCUSSED
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THE AFFAIR WITH THE SUBSECRETARY OF FOREIGN AFFAIRS TO

UNDERSCORE THAT HIS ACTION IN SENDING THE LETTER WAS NOT INTENDED TO EXERT PRESSURE ON CEPE BUT RATHER TO SEEK INFORMATION TO ASSIST A US. FIRM. ALSO, HIS VISIT TO THE SUBSECRETARY WAS DESIGNED TO COORDINATE ACTION WITH THE FOREIGN MINISTRY IN ORDER TO MINIMIZE FURTHER ADVERSE EFFECTS OF THE LETTER. END SUMMARY.

3. IN SEPTEMBER 1975 CEPE ISSUED A TENDER FOR THE CONSTRUCTION OF AN OFFSHORE LOADING TERMINAL FOR THE ESMERALDAS OIL REFINERY (WHICH IS STILL UNDER CONSTRUCTION AND IS CURRENTLY SCHEDULED FOR COMPLETION AROUND THE END OF THIS YEAR). THE EVENTUAL CONTRACT FOR THE TERMINAL IS EXPECTED TO BE WORTH SOMEWHERE BETWEEN \$30 MILLION AND \$50 MILLION. TWO BIDS WERE RECEIVED IN RESPONSE, BOTH FROM US. FIRMS, OF WHICH THE BID BY OCEANIC CONTRACTORS WAS BY FAR THE LOWER.

4. A GOE TECNICAL COMMISSION RECOMMENDED IN FAVOR OF OCEANIC CONTRACTORS' BID. HOWEVER, IN JULY 1976, THE CEPE BOARD OF DIRECTORS AGREED TO A PROPOSAL BY THE DIRECTOR OF CEPE, COLONEL LUIS PINEIROS, THAT THE TENDER BE CANCELLED AND THAT THE CONTRACT BE AWARDED TO A FIRENCH FIRM, BUOYGES. SOON AFTERWARDS STORIES APPEARED IN THE ECUADOREAN PRESS REPORTING THAT THE CONTRACT WOULD BE AWARDED TO BUOYGES.

5. ALSO SOON AFTERWARDS, THE ECUADOREAN REPRESENTATIVE FOR OCEANIC CONTRACTORS CAME TO THE EMBASSY AND REQUESTED OUR ASSISTANCE IN HELPING TO THWART THIS DECISION WHICH, HE SAID, INVOLVED SEVERAL IMPROPRIETIES, NAMELY: THE FRENCH FIRM NEVER SUBMITTED A FORMAL BID; THE HEAD OF CEPE DID NOT REPORT TO THE CEPE BOARD THE FINDINGS OF THE TECHNICAL COMMISSION IN FAVOR OF OCEANIC'S BID; AND A QUORUM WAS NOT PRESENT AT THE CEPE BOARD MEETING WHICH ACCEPTED THE COLONEL'S PROPOSAL FOR CANCELLATION OF THE BID AND AWARD OF THE CONTRACT TO BUOYGES. (ALSO, THE ECUADOREAN REPRESENTATIVE OF THE FRENCH FIRM IS A COUSIN OF COLONEL PINEIROS.) MOREOVER, IT APPEARS THAT THE CANCELLATION OF THE TENDER MAY HAVE BEEN ILLEGAL UNDER ECUADOREAN LAW, WHICH SPECIFIES THAT A TENDER MAY BE CANCELLED ONLY WHEN NO BIDS ARE RECEIVED OR WHEN ALL THE BIDS PROVE TO BE INCONSISTENT WITH THE TENDER'S SPECIFICATIONS; AS FAR AS WE CAN DETERMINE, CONFIDENTIAL

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OCEANIC'S BID WAS WHOLLY CONSISTENT WIT THE SPECIFICATIONS. (A HIGH ECUADORAN OFFICIAL HAS CONFIRMED TO THE AMBASSADOR PRIVATELY AND CONFIDENTIALLY THAT THESE WERE IRREGULARITIES IN THE AWARDING OF THE CONTRACT TO THE FRENCH.)

6. IN VIEW OF THESE CIRCUMSTANCES AND THE MAGNITUDE OF THE TRADE OPPORTUNITY, THE EMBASSY FELT IT ADVISABLE TO TAKE ACTION IN RESPONSE TO THE REQUEST FROM OCEANIC'S

REPRESENTATIVE. AFTER DISCUSSION WITH THE AMBASSADOR, IT WAS DECIDED THAT THE MOST APPROPRIATE ACTION WOULD BE TO SEND A LETTER FROM THE AMBASSADOR TO THE DIRECTOR OF CEPE, WITH COPIES TO EACH OF THE OTHER CEPE BOARD MEMEBERS (INCLUDING THREE CABINET MINISTERS), POINTING OUT THAT OCEANIC'S BID HAD BEEN THE LOWEST, THAT THE FIRM STOOD READY TO MODIFY ITS OFFER TO MEET CEPE'S NEEDS, AND REQUESTING AN EXPLANATION FOR THE CANCELLATION OF THE TENDER. THE LETTER WAS SENT ON JULY 19.

7. ON JULY 28 THE DIRECTOR OF ECONOMIC AFFAIRS OF THE FOREIGN MINISTRY APPROACHED THE AMBASSADOR AT A RECEPTION TO SAY THAT HE HAD BEEN INSTRUCTED TO RAISE THE MATTER WITH THE AMBASSADOR. HE SAID THAT THE LETTER HAD WOUNDED THE SENSIBILITIES OF THE RECIPIENT (I.E., CEPE) WHO HAD ASKED THE FOREIGN MINISTRY TO REMONSTRATE WITH THE AMBASSADOR. HE SAID HE HAD TOLD CEPE THAT HE WAS SURE THAT IT WAS NOT THE EMBASSY'S INTENTION TO DO ANYTHING IMPROPER AND THAT THE TRANSLATION INTO SPANISH WAS PROBABLY TOO LITERATE. THE AMBASSADOR ASKED THIS OFFICIAL TO CONFIRM TO CEPE THAT THIS WAS INDEED THE CASE. AT THAT POINT IT WAS OBVIOUS THAT THE FOREIGN MINISTRY HAD CHOSEN TO TRY BOTH TO PACIFY CEPE AND TO DOWNPLAY THE WHOLE AFFAIR. IN THE ENSUING DAYS, SLANTED STORIES APPEARED IN THE ECUADOREAN PRESS EXPLAINING IN DETAIL THE HISTORY OF THE TENDER AND THE STEPS LEADING UP TO THE DECISION TO AWARD THE CONTRACT TO THE FRENCH FIRM. SOME DAYS AFTERWARD, HOWEVER, STORIES APPEARED REPORTING THAT NO FIRM DECISION HAD YET BEEN MADE AS TO WHICH FIRM WOULD BE AWARDED THE CONTRACT. THE EMBASSY LEARNED RELIABLY THAT THE FIRST GROUP OF STORIES EMANATED FROM CEPE. IN THE MEANTIME, THE EMBASSY ALSO LEARNED THAT THE PRESIDENT OF THE SUPREME COUNCIL, ADMIRAL POVEDA, HAD CALLED PINEIROS ON THE CARPET AND INSTRUCTED HIM TO RECONSIDER THE DECISION

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THAT WOULD AWARD THE CONTRACT TO THE FRENCH FIRM.

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INFO OCT-01 ISO-00 EB-07 COME-00 EUR-12 SS-15 SP-02 PRS-01

L-03 CIAE-00 INR-07 NSAE-00 H-02 NSC-05 PA-01 USIA-06

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R 192035Z AUG 76

FM AMEMBASSY QUITO

TO SECSTATE WASHDC 1233

INFO AMCONSUL GUAYAQUIL

C O N F I D E N T I A L SECTION 2 OF 2 QUITO 5904

8. THE ESMERALDAS TERMINAL THUS BECAME A CENTRAL ISSUE IN A POWER STRUGGLE BETWEEN ADMIRAL POVEDA AND THE NATIONALISTIC MINISTER OF NATURAL RESOURCES AND HIS SUBORDINATE, COL. PINEIROS. HIS MACHINATIONS AGAINST POVEDA HAVE BEEN REPORTED SEPARATELY. THE COLONEL EVIDENTLY DECIDED THAT THIS BEST DEFENSE WOULD BE AN OFFENSE. ALSO, IN MID-AUGUST THE AMBASSADOR'S LETTER SUDDENLY APPEARED IN THE ECUADOREAN PRESS, WHICH REPORTED THAT PINEIROS HAD CHARACTERIZED IT AS "IMPROPER" AND HAD ASKED THE FOREIGN MINISTRY TO SO INFORM THE AMBASSADOR. LEADING ECUADOREAN DAILIES QUOTED THE COLONEL'S REMARKS ON AUGUST 14 AND 15, MOST OF THEM CHARACTERIZING THE LETTER (IN THEIR HEADLINES AND/OR IN THEIR TEXTS) AS A "DEMAND" FOR AN EXPLANATION OF THE CANCELLATION OF THE TENDER. ALTHOUGH THE ARTICLES PROVIDED DIRECT QUOTES OF THE LETTER'S TEXT WHICH THE REQUEST FOR INFORMATION WAS COINED IN POLITE TERMS, THE CRITICS HAVE SEIZED ON ONE WORD "EXPLICACION"--"EXPLANATION"--WHICH IN SPANISH HAS STRONGER CONNOTATIONS THAN IN ENGLISH. (A COPY OF THE LETTER WAS FORWARDED AUGUST 18 TO ARA/AND.)

9. THESE ARTICLES SO FAR HAVE NOT DRAWN ANY EDITORIAL COMMENT IN THE PRESS EXCEPT FOR AN EXPECTABLE DENUNCIATION IN THE COMMUNIST PERIODICAL "PUEBLO" (WHICH WAS REPORTED AND AMPLIFIED ON AUGUST 16 WITH MUCH DISTORTION, IN A DISPATCH BY THE SOVIET NEWS AGENCY TASS). HOWEVER, ON AUGUST 18
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THE LARGEST-CIRCULATION ECUADOREAN DAILY, "EL UNIVERSO," PUBLISHED ON ITS EDITORIAL PAGE A COLUMN BY FORMER ECUADOREAN AMBASSADOR TO THE OAS, JUNA CARLOS FAIDUTTI, WHICH TAKES THE AMBASSADOR TO TASK FOR SENDING THE LETTER AND DEPICTS THE ACTION AS A DANGEROUS PRECEDENT WHICH, HAD IT NOT BEEN REJECTED, WOULD HAVE ENCOURAGED "CONSTANT DIPLOMATIC INTERVENTION IN ECUADOREAN AFFAIRS."

10. AFTER CONSIDERING HOW BEST TO RESPOND TO THIS, THE AMBASSADOR DECIDED TO DISCUSS IT WITH THE SUBSECRETARY OF FOREIGN AFFAIRS. ON AUGUST 18 THE AMBASSADOR SPOKE TO THE SUBSECRETARY, JOSE AYALA, AND AGAIN EMPHASIZED THAT THE SENDING OF THE LETTER HAD NOT BEEN INTENDED TO MAKE DEMANDS OR EXERT PRESSURE ON CEPE, BUT RATHER HAD BEEN AN EFFORT SIMPLY TO SEEK INFORMATION HELPFUL TO A U.S. FIRM. THE AMBASSADOR ALSO SAID THAT HE REGRETTED THAT HIS LETTER MIGHT BE CAUSING THE GOE PROBLEMS AND ASKED WHETHER THE SUBSECRETARY THOUGHT IT WOULD BE HELPFUL IF THE EMBASSY TOOK SOME FURTHER ACTION, SUCH AS A PRESS STATEMENT. THE SUBSECRETARY TOLD THE AMBASSADOR THAT HE MUCH APPRECIATED HIS VISIT, WHICH WOULD BE HELPFUL TO HIM IN "CALMING DOWN" ANY POSSIBLE FURTHER NEGATIVE REACTIONS WITHIN THE GOE. HE ADVISED AGAINST ANY PUBLIC STATEMENTS ON THE AFFAIR BY THE EMBASSY, AT LEAST FOR THE TIME BEING. HE SAID IT WAS PROBABLE THAT THE COMMUNISTS WOULD CONTINUE TO TRY TO USE THE LETTER TO MAKE TROUBLE AND IT WAS ALSO POSSIBLE THAT THERE WOULD BE SOME FURTHER CRITICISM IN THE NON-COMMUNIST PRESS. EVENTUALLY, ONE MIGHT EXPECT IT ALL TO BLOW OVER.

1. LOCAL PRESS REPORTED AUGUST 19 THAT CEPE WILL CALL A NEW TENDER FOR CONSTRUCTION OF THE PROVISIONAL TERMINAL: OCEANIC, BUOYGES, AND TWO OTHER FIRMS (SOTOMAR AND TECHI) ARE PARTICIPANTES. EMBASSY UNDERSTANDS THAT PARTICIPANTS HAVE BEEN ASKED TO PRESENT PROPOSALS, INCLUDING FINANCING, FOR THE PROVISIONAL TERMINAL WITHIN THE NEXT THREE WEEKS.

12. AMBASSADOR'S COMMENT:ALTHOUGH IT WAS DIFFICULT TO PREDICT AT THE TIME THE LETTER WAS SENT THAT THE ESMERALDAS TERMINAL WOULD BECOME THE CAUSE CELEBRE THAT IT HAS, THE SPANISH WORDING OF THE LETTER WAS NEVERTHELESS A MISTAKE FOR WHICH I ASSUME RESPONSIBILITY. HOW MUCH DAMAGE HAS BEEN DONE REMAINS CONFIDENTIAL

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TO BE SEEN WE WILL KEEP THE DEPARTMENT INFORMED.
BLOOMFIELD

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 19 AUG 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ShawDG
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
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Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: ShawDG
Review Comment: n/a
Review Content Flags:
Review Date: 20 JUL 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <20 JUL 2004 by SmithRJ>; APPROVED <02 NOV 2004 by ShawDG>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: U.S. AMBASSADOR'S LETTER ON BEHALF OF U.S. FIRM DRAWS FIRE
TAGS: BEXP, EC
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006